Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Usage of the Public Switched	)	CC Docket No. 96-263
Network by Information Service	)	
and Internet Access Providers	)	

REPLY COMMENTS OF

TCA, INC. - TELECOMMUNICATIONS CONSULTANTS

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I. Introduction and Summary

TCA, Inc. - Telecommunications Consultants is a consulting group that serves small rural local exchange carriers (LECs). These Notice of Inquiry reply comments address the concerns of our clients, who are directly impacted by the Commission's actions in this docket. Specifically, our comments focus on the effects of the current system on incumbent LEC cost-recovery.

The current policy of exempting information service providers (ISPs) from access charges has resulted in the classification of this traffic as "local". The exponential growth of ISP-related "local" traffic has shifted costs previously recovered from the provision of network access to costs which must be recovered from all local ratepayers. Projected increases in Internet usage will only worsen this situation. Accordingly, the cost-recovery mechanism of small rural LECs must be altered to classify ISP traffic as interexchange instead of local. Preferably, LECs would be able to recover the costs associated with this traffic from ISPs through usage-sensitive rates instead of through flat-rates, as is currently done. However, should the FCC retain the present policy of exempting ISP traffic from access charges, an alternative source for small rural LEC cost-recovery must also be created, as the present situation of shifting ISP costs to all local ratepayers cannot continue.

II. Impact of ISP Traffic on Jurisdictional Separations Process

Currently, small rural LECs recover most of their costs through access charges, paid by interexchange carriers (IXCs) for use of the local network. Access charge rates are developed through a jurisdictional separations process, whereby operating costs are assigned to types of usage (local, interexchange, etc.) based upon allocation factors. Customer calling patterns provide the basis for one of the major allocation factors, which dictates the assignment of many of a LECs' costs, including switching costs. Changes in usage patterns will result in "shifting" of cost assignments between jurisdictions. Because ISP traffic is considered local, the recent increases in this usage have resulted in the reallocation of existing switching costs to the local jurisdiction from the access jurisdiction. This "shifting" of costs has reduced the access revenues of small LECs and will force them to attempt to recover the shortfall through local rate increases.

III. Recovery of ISP Usage Costs from Local Ratepayers is Inappropriate

A relatively small number of customers are responsible for increased ISP usage and the resulting "shifting of costs" from access to local. Ratepayers should not all be required to incur higher local rates to offset the loss of access revenues, as this violates the principle of requiring the "cost-causer" to pay for the cost increase.

The "cost shift" caused by increased ISP traffic is clearly driven by usage. Accordingly, it would provide the small rural LECs more appropriate incentives for efficient network investment if these costs were recovered from a usage-sensitive access charge rate, instead of a flat-rate local charges, which are traditionally required by state regulatory bodies.

Finally, small rural LECs are already under considerable pressure to increase local rates. Implementation of access reform will reduce their access revenues and will force them to increase local rates. Small rural LECs are also facing reductions in universal service support which will also place considerable upward pressure on local rates.

IV. ISP Traffic Should Not be Classified as Local

Even if the FCC retains the practice of exempting ISPs from access charges, ISP traffic should be considered interexchange traffic, not local, in the jurisdictional separations process. This would enable existing access costs to continue to be recovered by the provision of network access. Several parties filing comments in this NOI have described the ISPs' network usage much more closely resembling the usage of an IXC than that of an end user.[1] Considerable evidence was also provided that ISPs are offering services which directly compete with the voice services offered by IXCs.[2] Classifying ISP traffic as interexchange in the jurisdictional separations process is clearly consistent with the characteristics of this traffic.

V. Increased Revenues Attributable to ISP Usage are Inconsequential

LECs have generated additional local revenues which can be attributed to increased Internet traffic, as both the ISPs (for modem banks) and local subscribers (dedicated for Internet usage) have added access lines. Profit margins on these additional access lines have not offset the small rural LECs' loss in access revenues caused by the costs "shifted" from the interexchange jurisdiction to the local jurisdiction.

In fact, should the Joint Board's recommended decision to deny universal service support to second residential lines be accepted, the small LECs' cost of providing the second line will likely

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1 See Comments of Southwestern Bell Telephone Co., CC Docket 96-263, pg. 6.

2 See Comments of USTA, CC Docket 96-263 filed March 24, 1997, pg. 16.

exceed the revenue from the line, further compounding their cost recovery problems. Small LECs will have to decide between increasing the price of the second lines to cost, which will result in many subscribers canceling and the LEC being left with stranded investment, or retaining the supported access line price, which will result in LECs offering this service below cost.

VI. Conclusion

Classification of ISP traffic as local has negatively impacted the small rural LECs' primary cost-recovery mechanism, the jurisdictional separations process. Large increases in ISP traffic has resulted in the reallocation of network costs from the interexchange jurisdiction to the local jurisdiction, despite ISP network usage possessing virtually identical characteristics of IXC network usage. As a result, small rural LECs are required to increase local rates to recover these "shifted costs" which were previously, and more appropriately, recovered through the provision of network access. Future increases in Internet usage will only worsen the problem. To remedy this situation, the jurisdictional separations process must be modified so ISP traffic is classified as interexchange instead of local. This change is necessary whether or not the FCC decides to retain the present policy of exempting ISP traffic from access charges. However, should LECs continue to be denied the opportunity to recover these "shifted costs" from ISPs through usage-sensitive rates, the FCC must, at a minimum, establish an alternative recovery mechanism. The present practice of allowing network costs to be reallocated from access providers to all local ratepayers as a result of increased ISP traffic must be discontinued.

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